

**REHOBOTH CHRISTIAN
SCHOOL ASSOCIATION**

**CONSOLIDATED FINANCIAL
STATEMENTS**

**June 30, 2013 and 2012
With Independent Auditor's Report**

JAMES H. QUIST CPA PLC

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SCHOOL ASSOCIATION**

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June 30, 2013 and 2012
With Independent Auditor's Report



REHOBOTH CHRISTIAN SCHOOL ASSOCIATION

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INDEPENDENT AUDITOR'S REPORT

**Board of Directors
Rehoboth Christian School Association
Rehoboth, New Mexico**

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

I have audited the accompanying consolidated financial statements of Rehoboth Christian School Association and its subsidiary, which are comprised of the consolidated statements of financial position as of June 30, 2013 and 2012, the related consolidated statements of activities and cash flows for the years then ended and the related notes to the financial statements.

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JAMES H. QUIST CPA PLC

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these consolidated financial statements based on my audits. I conducted my audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Rehoboth Christian School Association and its subsidiary as of June 30, 2013 and 2012, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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INDEPENDENT AUDITOR'S REPORT, continued

OTHER MATTER

My audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary data on pages 24 through 28 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

A handwritten signature in blue ink, appearing to read "James H. Quist".

Wyoming, Michigan
November 16, 2013

REHOBOTH CHRISTIAN SCHOOL ASSOCIATION

Consolidated Statements of Financial Position

	June 30,	
	2013	2012
ASSETS		
Cash and cash equivalents	\$ 423,339	\$ 143,303
Accounts receivable - net of allowance of \$20,000 at June 30, 2013 and \$24,000 at June 30, 2012	50,722	337,925
Prepaid expenses	19,329	27,973
Contributions receivable	1,259,426	330,939
Inventory	17,853	32,692
Unamortized loan costs, net of accumulated amortization of \$6,815 at June 30, 2013 and \$93,278 at June 30, 2012	197,620	367,904
Note receivable	629,856	583,200
Property held for sale	577,949	722,363
Cash and investments held in reserve for bonds payable	2,585,682	5,865,479
Cash surrender value of life insurance policies	40,754	35,561
Barnabas Foundation annuity gifts receivable	11,229	11,833
Investments held for long-term purposes	3,906,082	3,503,282
Property and equipment, net of accumulated depreciation	14,384,642	15,062,558
Total Assets	\$ 24,104,483	\$ 27,025,012
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 61,352	\$ 43,406
Accrued expenses	78,521	92,121
Deferred revenue	30,490	29,937
Note payable	-	37,329
Interest rate swap	-	1,080,179
Present value of annuity agreements	44,973	3,948
Bonds payable	5,500,000	7,480,000
Total Liabilities	5,715,336	8,766,920
Net Assets		
Unrestricted		
Undesignated	4,380,537	5,849,017
Designated	106,486	106,486
Net investment in property and equipment	8,884,642	7,582,558
	13,371,665	13,538,061
Temporarily restricted	491,284	260,211
Permanently restricted	4,526,198	4,459,820
Total Net Assets	18,389,147	18,258,092
Total Liabilities and Net Assets	\$ 24,104,483	\$ 27,025,012

See accompanying notes to consolidated financial statements

REHOBOTH CHRISTIAN SCHOOL ASSOCIATION

Consolidated Statements of Activities

For the Years Ended June 30,

	2013			2012				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE								
Tuition and fees	\$ 2,801,758	\$ -	\$ -	\$ 2,801,758	\$ 2,712,779	\$ -	\$ -	\$ 2,712,779
Less: tuition grants and discounts	(1,313,584)	-	-	(1,313,584)	(1,190,589)	-	-	(1,190,589)
	<u>1,488,174</u>	<u>-</u>	<u>-</u>	<u>1,488,174</u>	<u>1,522,190</u>	<u>-</u>	<u>-</u>	<u>1,522,190</u>
Sales	131,598	-	-	131,598	69,110	-	-	69,110
Less: cost of sales	(108,500)	-	-	(108,500)	(37,998)	-	-	(37,998)
	<u>23,098</u>	<u>-</u>	<u>-</u>	<u>23,098</u>	<u>31,112</u>	<u>-</u>	<u>-</u>	<u>31,112</u>
Contributions	1,977,543	1,308,739	66,378	3,352,660	1,862,268	54,933	120,171	2,037,372
Fund-raisers, net of expenses	18,263	-	-	18,263	24,968	-	-	24,968
Grants	101,226	-	-	101,226	548,781	-	-	548,781
Rental	102,658	-	-	102,658	119,779	-	-	119,779
Campus program revenue	277,424	-	-	277,424	257,926	-	-	257,926
Investment income (losses)	393,009	362,293	-	755,302	(9,947)	(27,894)	-	(37,841)
Change in value of annuity agreements	-	(4,422)	-	(4,422)	-	203	-	203
Thrift store sales	7,448	-	-	7,448	1,896	-	-	1,896
Other income	81,020	-	-	81,020	94,226	-	-	94,226
	<u>4,469,863</u>	<u>1,666,610</u>	<u>66,378</u>	<u>6,202,851</u>	<u>4,453,199</u>	<u>27,242</u>	<u>120,171</u>	<u>4,600,612</u>
RECLASSIFICATIONS								
Net assets released for satisfaction of purpose restrictions	1,435,537	(1,435,537)	-	-	172,281	(172,281)	-	-
EXPENSES								
Program services								
Instructional	3,235,484	-	-	3,235,484	2,753,775	-	-	2,753,775
Auxiliary	1,021,780	-	-	1,021,780	1,400,731	-	-	1,400,731
Extra-Curricular	176,194	-	-	176,194	198,318	-	-	198,318
Total Program Services	<u>4,433,458</u>	<u>-</u>	<u>-</u>	<u>4,433,458</u>	<u>4,352,824</u>	<u>-</u>	<u>-</u>	<u>4,352,824</u>
Supporting activities								
Management and general	1,263,403	-	-	1,263,403	1,546,888	-	-	1,546,888
Fund-raising	374,566	-	-	374,566	357,777	-	-	357,777
Total Supporting Activities	<u>1,637,969</u>	<u>-</u>	<u>-</u>	<u>1,637,969</u>	<u>1,904,665</u>	<u>-</u>	<u>-</u>	<u>1,904,665</u>
RDLLC operations	369	-	-	369	4,574	-	-	4,574
	<u>6,071,796</u>	<u>-</u>	<u>-</u>	<u>6,071,796</u>	<u>6,262,063</u>	<u>-</u>	<u>-</u>	<u>6,262,063</u>
Change in Net Assets	(166,396)	231,073	66,378	131,055	(1,636,583)	(145,039)	120,171	(1,661,451)
Net Assets, Beginning of Year	13,538,061	260,211	4,459,820	18,258,092	15,174,644	405,250	4,339,649	19,919,543
Net Assets, End of Year	<u>\$ 13,371,665</u>	<u>\$ 491,284</u>	<u>\$ 4,526,198</u>	<u>\$ 18,389,147</u>	<u>\$ 13,538,061</u>	<u>\$ 260,211</u>	<u>\$ 4,459,820</u>	<u>\$ 18,258,092</u>

See accompanying notes to consolidated financial statements

REHOBOTH CHRISTIAN SCHOOL ASSOCIATION

Consolidated Statements of Cash Flows

	For the Years Ended June 30,	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 131,055	\$ (1,661,451)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Contributions restricted for long-term purposes	(103,733)	(160,146)
Decrease in allowance for doubtful accounts	(4,000)	(12,000)
Interest accrued on note receivable	(46,656)	(43,200)
(Gains) losses on sales of investments	(643,591)	201,270
Depreciation and amortization	1,217,338	849,851
Losses on disposal of equipment	-	15,121
Interest accrued on note payable	-	1,418
Change in:		
Accounts receivable	291,203	(60,319)
Prepaid expenses	8,644	28,713
Contributions receivable	(928,487)	212,112
Inventory	14,839	(10,550)
Unamortized loan costs	(204,435)	-
Property held for sale	144,414	35,655
Cash surrender value of life insurance policies	(5,193)	(1,408)
Barnabas Foundation annuity gifts receivable	604	(11,833)
Accounts payable	17,946	(27,552)
Accrued expenses	(13,600)	(36)
Deferred revenue	553	(14,908)
Interest rate swap	(1,080,179)	182,768
Present value of annuity agreements	(30,160)	(203)
Net Cash Used by Operating Activities	(1,233,438)	(476,698)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(2,895,184)	(467,455)
Proceeds from sales of investments	6,415,772	1,169,684
Purchases of property and equipment	(164,703)	(352,896)
Proceeds from sales of equipment	-	2,000
Net Cash Provided by Investing Activities	3,355,885	351,333

CONTINUED NEXT PAGE

See accompanying notes to consolidated financial statements

REHOBOTH CHRISTIAN SCHOOL ASSOCIATION

Consolidated Statements of Cash Flows

	<u>For the Years Ended June 30,</u>	
	<u>2013</u>	<u>2012</u>
CONTINUED FROM PREVIOUS PAGE		
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for investment in plant	37,355	39,975
Contributions restricted for investment in endowment	66,378	120,171
Proceeds from line of credit	100,000	300,000
Payments on line of credit	(100,000)	(300,000)
Proceeds from bond principal	5,500,000	-
Payments of bond principal	(7,480,000)	(135,000)
Payments on note payable	(37,329)	(25,000)
Payments on capitalized leases	-	(1,528)
Proceeds from new annuity agreement	72,000	-
Payments to annuity beneficiaries	(815)	(815)
Net Cash Used by Financing Activities	<u>(1,842,411)</u>	<u>(2,197)</u>
Change in Cash and Cash Equivalents	280,036	(127,562)
Cash and Cash Equivalents, Beginning of Period	<u>143,303</u>	<u>270,865</u>
Cash and Cash Equivalents, End of Period	<u>\$ 423,339</u>	<u>\$ 143,303</u>
SUPPLEMENTAL INFORMATION		
Cash paid for interest	<u>\$ 259,089</u>	<u>\$ 399,363</u>

See accompanying notes to consolidated financial statements

REHOBOTH CHRISTIAN SCHOOL ASSOCIATION

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

1. NATURE OF ORGANIZATION

The mission of Rehoboth Christian School Association (RCS) is to challenge its students to know the Triune God and equip them to love, serve and transform the world in His name. RCS seeks to be vigorously academic, beautifully diverse and thoroughly Christian.

In existence for over 100 years, RCS offers grades K-12 and preschool to families throughout the Four Corners region. Its facilities are located on one campus in Rehoboth, New Mexico. Its operations are financed primarily from contributions, tuition and fees. RCS also provides for the transportation and feeding of students, the latter of which is on a free and reduced fee basis. The costs for various program and extra-curricular activities are also financed by fund-raising efforts and ticket sales.

RCS is a nonprofit organization and is exempt from federal income taxes under section 501(c)(3) of the United States Internal Revenue Code and comparable state law, and has been classified as a publicly supported organization that is not a private foundation under section 509(a) of the code. Contributions to RCS are tax deductible within the limits prescribed by the Code.

2. SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The consolidated financial statements of RCS are prepared on the accrual basis of accounting. The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts and disclosures. Accordingly, actual results could differ from these estimates. The significant accounting policies that have been adopted by RCS are described below.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements of RCS include the combined financial resources and activities of Rehoboth Development, LLC (RDLLC), a single member limited liability corporation which exists to own and develop real estate. RDLLC is organized in the state of New Mexico. Because RCS owns RDLLC, its tax exempt status applies to the activity of RDLLC as well. RDLLC's revenues are generated primarily from the sale of real estate. All inter-organization balances and transactions have been eliminated in the consolidation.

CASH, CASH EQUIVALENTS AND CONCENTRATION OF CREDIT RISK

Cash and cash equivalents includes checking, money market and other highly liquid investment accounts. Cash and short-term investments held in certain checking, money market and other highly liquid accounts are reported as investments instead of cash because RCS holds those funds either in reserve for bonds payable or as an endowment. While balances in these accounts may at times exceed federally insured limits, RCS has not experienced any losses in such accounts, and management believes it is not exposed to any significant credit risk on these accounts.

INVESTMENTS

Investments are comprised of cash and investments held in reserve for bonds payable and for long-term purposes. Investments are reported at fair value, which is determined using published exchange market quotations where applicable and using estimated market value when no ready market exists. Donated investments are reported at market value at the date of donation and thereafter carried in accordance with the above policies. Investments held for long-term purposes are related to endowment funds. Unrealized gains and losses are included in unrestricted investment income in the consolidated statements of activities unless a donor or law temporarily or permanently restricts their use.

REHOBOTH CHRISTIAN SCHOOL ASSOCIATION

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

2. SIGNIFICANT ACCOUNTING POLICIES, continued

INVESTMENTS, continued

Alternative investments consist of investments in the Barnabas Foundation and Commonfund and are carried at fair value as determined by the funds' managers, based on information provided by the funds' professional investment managers. In determining fair value, managers utilize the valuation of the underlying investment entities reflected on their respective audited financial statements. The underlying investment entities value securities and other financial instruments at market value when possible, or at fair value as determined by the respective entities' general partners or managers when no market is readily available. The estimated fair values of certain of the investments of the underlying investment entities, which include private placements and other securities for which prices are not readily available, may not reflect amounts that could be realized upon immediate sale, nor amounts that ultimately may be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments.

ACCOUNTS RECEIVABLE

Accounts receivable consists of unpaid student tuition charges and is reported net of any anticipated losses due to uncollectability. The allowance is maintained at a level that, in management's judgment, is adequate to absorb potential losses inherent in the receivables portfolio. The allowance for doubtful accounts is based on management's evaluation of the collectability of the receivable portfolio, including the nature of the portfolio, trends in historical loss experience, payment patterns from the families and general economic conditions. Management maintains an allowance for doubtful accounts, \$20,000 at June 30, 2013 and \$24,000 at June 30, 2012, against which account write-offs are charged throughout the year. RCS considers an account to be past due when items billed on the account have not been paid by the due date. All outstanding balances at year-end are considered past due. Past due accounts are subject to internal collection efforts but remain classified as active student accounts until graduation or withdrawal from the school. No late fee is assessed on past due accounts. Uncollectible accounts are recognized as additions to bad debt expense in the period it is determined the amounts could become uncollectible.

CONTRIBUTIONS RECEIVABLE

Unconditional promises to give are recognized as income when made and reported at fair value based upon estimated future cash flows. Unconditional promises to give that are expected to be collected within one year are reported at net realizable value because the present value of the estimated value of the estimated cash flows approximates net realizable value. Unconditional promises to give that are expected to be collected in future years are reported at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk free interest rates applicable to the years in which the promises are expected to be received. This discount rate is based on yields of the various U.S. treasury bills corresponding to the timing of the contributions receivable. Amortization of the discount is included in contributions revenue in the consolidated statements of activities. While some receivables are past due, management believes all contributions receivable balances are fully collectible at June 30, 2013 and 2012; there is, therefore, no allowance for doubtful promises to give.

INVENTORY

Inventory consists of cafeteria food and logo merchandise and is stated at cost using the first-in, first-out method of inventory valuation.

REHOBOTH CHRISTIAN SCHOOL ASSOCIATION

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

2. SIGNIFICANT ACCOUNTING POLICIES, continued

UNAMORTIZED LOAN COSTS

Unamortized loan costs at June 30, 2013 include amounts paid in connection with the issuance of the Public Finance Authority 2013 bond (Note 8). Unamortized loan costs at June 30, 2012 include amounts paid in connection with the issuance of the CECFA 2007 bonds (Note 8). Amortization of loan costs is calculated using the straight-line method over the life of the bond issue. For the year ended June 30, 2013, amortization expense related to loan costs was \$374,720, which includes the write-off of the remaining balance of CECFA 2007 bonds loan costs of \$367,904. For the year ended June 30, 2012, amortization of loan costs was \$14,814.

PROPERTY HELD FOR SALE

Property held for sale consists of land, property development costs and residential real estate held by RDLLC. Costs that clearly relate to land development costs are capitalized. Costs are allocated to project components by the specific identification method whenever possible. Otherwise, acquisition costs are allocated based on the relative fair values of the parcels before development. Development costs are allocated based on the relative sales values of the parcels.

PROPERTY AND EQUIPMENT

Expenditures for property and equipment in excess of \$2,000 are capitalized at cost when purchased. Donated items are reported at their fair market value on the date of the gift.

During the 2000 fiscal year RCS received a donation of buildings and land from the Rehoboth-Red Mesa Foundation, Inc. (RMF). The buildings and land were recorded at their estimated fair market values as of the date of the gift of \$7,227,199 and \$1,944,000, respectively. The property must always be used as a school to promote the educational interests of Native American residents who live in the geographic area. Should RCS cease operations, title to the land and buildings reverts back to RMF. RMF intends to discontinue its operations within the next few years and will address the property reversion issue at that time.

Depreciation is reported using the straight-line method over the estimated useful lives of the assets, which range from 3 to 40 years. Depreciation expense was \$842,618 and \$835,037 for the years ended June 30, 2013 and 2012, respectively.

DEFERRED REVENUE

Deferred revenue results primarily from deposits received for fall enrollment.

INTEREST RATE SWAP

RCS utilized a derivative instrument for the purpose of managing interest rate risks until the contract was terminated in May 2013. This interest rate swap agreement was used to convert RCS's variable rate long-term debt to a fixed rate (Note 7). The differentials paid or received on the interest rate swap agreement are recognized as adjustments to interest expense and are classified as an operating activity on the statements of cash flows. The gain or loss to be realized upon the settlement of this agreement is deferred until the underlying hedge instrument is settled.

In anticipation of refinancing its variable rate long-term debt (Note 8), RCS terminated the interest rate swap agreement in March 2013 and paid its cumulative obligation.

REHOBOTH CHRISTIAN SCHOOL ASSOCIATION

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

2. SIGNIFICANT ACCOUNTING POLICIES, continued

ANNUITY AGREEMENTS

Annuity agreements provide for a fixed annual payment for the lives of the donors or their designated beneficiaries. Under an annuity agreement, a donor makes a payment to RCS and is entitled to annual payments from RCS thereafter until death. The excess of the amount paid by the donor over the present value of estimated annual payments is reported as contribution revenue and the present value of the estimated payments is reported as a liability at the inception of the agreement. The corpus of these annuity agreements are included with permanently restricted net assets as they are intended to benefit endowments.

During the year ended June 30, 2013, RCS accepted a \$72,000 agreement for which contribution revenue of \$33,978 and a liability of \$38,022 for anticipated cumulative beneficiary payments have been recorded.

For the years ended June 30, 2013 and 2012, the present value of annuities increased by \$41,025 and decreased by \$1,018, respectively. The discount rates used to calculate the present value of the annuity contracts ranged from 1 percent to 8 percent, with actuarial assumptions based on published life expectancy tables adopted by the Internal Revenue Service.

NET ASSETS

The consolidated financial statements report amounts separately by classes of net assets.

UNRESTRICTED NET ASSETS are those available for current purposes under the direction of the board (undesignated net assets), those designated by the board for specific uses, and those invested in capitalized property and equipment less related debt.

TEMPORARILY RESTRICTED NET ASSETS are those subject to donor-imposed stipulations that will be met either by actions of RCS or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions.

PERMANENTLY RESTRICTED NET ASSETS are those subject to donor-imposed stipulations to be maintained permanently by RCS. Generally, the donors of these assets permit RCS to use all or part of the income earned on any related investments for general or specific purposes.

SUPPORT AND REVENUE

Contributions are recognized when cash is received, unconditional promises are made, or ownership of donated assets are transferred. Contributions received are reported as unrestricted, temporarily restricted or permanently restricted support depending on the existence and nature of any donor restrictions. When a donor restriction expires, that is when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions.

Contributions of assets other than cash are reported at their estimated fair value. RCS reports donations of property and equipment as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Property and equipment donated with restrictions regarding their use and contributions of cash to acquire property are reported as restricted support. Absent any donor stipulations, these restrictions expire when the asset is acquired and placed in service, at which time a reclassification is made from temporarily restricted net assets to unrestricted net assets.

REHOBOTH CHRISTIAN SCHOOL ASSOCIATION

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

2. SIGNIFICANT ACCOUNTING POLICIES, continued

SUPPORT AND REVENUE, continued

Revenue from the sale of property is recognized when a minimum of 10 percent of the sales price has been received in cash, the legal rescission period has expired, collectability of the receivable representing the remainder of the sales price is reasonably assured and RDLLC has completed substantially all of its obligations with respect to any development related to the real estate sold. In cases where all development has not been completed, RDLLC recognizes revenue in accordance with the percentage-of-completion method of accounting.

Sales that do not meet the criteria for revenue recognition described above are deferred using the deposit method. Under the deposit method, cash received from customers is classified as a refundable deposit in the liability section of the consolidated statements of financial position until the requirements detailed above are met.

All other revenues are reported when earned.

FUNCTIONAL ALLOCATION OF EXPENSES

All expenses are reported net of any discounts in the unrestricted class and are recorded when incurred in accordance with the accrual basis of accounting.

The costs of providing the various program services and supporting activities of RCS have been summarized on a functional basis in the consolidated statements of activities. Accordingly, certain costs have been allocated among the program services and supporting activities that benefited from those costs.

PENSION PLAN

RCS employees participate in the multi-employer Christian School International Pension Plan and Trust. This plan applies to each participant who has a thousand hours of service on or after September 1, 1989. RCS matches employee contributions up to 5 percent of the employee's annual compensation. Matching amounts contributed by RCS to the plan for the years ended June 30, 2013 and 2012 totaled \$111,164 and \$124,629, respectively, and are included in staff benefits for financial reporting purposes.

ADVERTISING

RCS expenses advertising costs as they are incurred. Advertising costs totaled \$11,181 and \$6,870 for the years ended June 30, 2013 and 2012, respectively.

DONATED GOODS AND SERVICES

During the year ended June 30, 2012, RCS received donated vehicles with an estimated fair value of \$19,600.

Contributed professional accounting services with an estimated value of \$10,000 for both of the years ended June 30, 2013 and 2012 are included in miscellaneous income and management and general expenses.

Several other individuals have contributed a significant amount of time to RCS without compensation. These services were not recognized as contributions in the consolidated statements of activities as they do not meet the necessary accounting criteria or because there is insufficient information to record the contribution of professional services to RCS.

REHOBOTH CHRISTIAN SCHOOL ASSOCIATION

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

2. SIGNIFICANT ACCOUNTING POLICIES, continued

RECLASSIFICATIONS

Certain reclassifications have been made to the prior year's financial statements to conform to the current year presentation. These reclassifications had no effect on previously reported results of operations or net assets.

3. CONTRIBUTIONS RECEIVABLE

At June 30, 2013 and 2012, RCS had \$1,271,500 and \$332,130 in unconditional promises to give, respectively. The present value of these estimated future cash flows is \$1,259,426 and \$330,939, respectively, using discount rates ranging from .25 percent to .5 percent at June 30, 2013 and 1 percent to 5 percent at June 30, 2012. Contributions receivable consist of eight and eleven promises to give from various individuals and entities at June 30, 2013 and 2012, respectively. See Note 2 for a description of the accounting policy for contributions receivable. These promises to give are due to be collected through 2017 and are reported as contributions receivable in the accompanying consolidated statements of financial position.

Promises to give are expected to be collected as follows:

	June 30,	
	2013	2012
Amounts due in		
Less than one year	\$ 351,500	\$ 307,130
One year to five years	920,000	25,000
Estimated future cash flows of contributions receivable	1,271,500	332,130
Less		
Unamortized discount	(12,074)	(1,191)
Net present value of contributions receivable	\$ 1,259,426	\$ 330,939

4. INVESTMENTS

Investments consist of the following:

	June 30, 2013		
	Held In		
	Reserve for	Endowment	Total
	Bonds Payable		
Cash and cash equivalents	\$ 344,030	\$ 176,507	\$ 520,537
Equity funds	8,237	2,263,065	2,271,302
Bond funds	2,219,882	872,594	3,092,476
Real estate investment trust	1,445	63,422	64,867
Alternative investments	12,088	530,494	542,582
	\$ 2,585,682	\$ 3,906,082	\$ 6,491,764

REHOBOTH CHRISTIAN SCHOOL ASSOCIATION

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

4. INVESTMENTS, continued

	June 30, 2012		
	Held In Reserve for Bonds Payable	Endowment	Total
Cash and cash equivalents	\$ 178,053	\$ (48,651)	\$ 129,402
Equity funds	1,237,202	2,057,128	3,294,330
Bond funds	1,302,408	868,251	2,170,659
Notes	500,000	-	500,000
Real estate investment trust	358,161	66,907	425,068
Alternative investments	2,289,655	559,647	2,849,302
	\$ 5,865,479	\$ 3,503,282	\$ 9,368,761

RCS accounts for investments under fair value accounting standards. Fair value is defined as the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

The financial accounting standards have established a hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Under the standards, three levels of inputs that may be used to measure fair value:

Level 1 - In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical assets or liabilities that RCS has the ability to access.

Level 2 - Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. Level 2 inputs include quoted prices for similar assets in active markets and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 - Level 3 inputs are unobservable inputs including inputs that are available in situations where there is little, if any, market activity for the related asset.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. RCS's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

Most investments of RCS are held and managed by the Barnabas Foundation, Commonfund and Investment Centers of America. Holdings with Barnabas Foundation include allocations to the Cash Equivalents, Equities, Core Fixed Income, High Yield Bond, Reit, Low Volatility, Managed Futures and CRC Loan funds. Fair values for each of these funds entails utilizing both Level 1 and Level 2 measurement inputs.

Holdings with Commonfund include allocations to its Multi-Strategy Equity and Multi-Strategy Bond funds. Fair values for each of these funds entails utilizing all three levels of measurement inputs; however, the proportion of holdings measured by Level 3 inputs is nominal.

REHOBOTH CHRISTIAN SCHOOL ASSOCIATION

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

4. INVESTMENTS, continued

Based on the above information and because Barnabas Foundation and Commonfund provide only monthly valuation and liquidity, management has concluded that the overall classification for fair value measurement for all funds within both of these entities is Level 2.

Holdings with Investment Centers of America include allocations to bond mutual funds. Fair values for each of these funds entails utilizing Level 1 measurement inputs.

The measurement of fair values of investment holdings have thus been classified as follows:

	June 30, 2013			
	Level 1	Level 2	Level 3	Total
Barnabas Foundation	\$ -	\$ 1,266,284	\$ -	\$ 1,266,284
Commonfund	-	2,508,983	-	2,508,983
Investment Centers of America	2,464,664	-	-	2,464,664
Huizenga Managers Fund, Ltd.	52,234	-	-	52,234
Bank money market funds	199,599	-	-	199,599
	\$ 2,716,497	\$ 3,775,267	\$ -	\$ 6,491,764

	June 30, 2012			
	Level 1	Level 2	Level 3	Total
Barnabas Foundation	\$ -	\$ 6,934,499	\$ -	\$ 6,934,499
Commonfund	-	2,264,263	-	2,264,263
Huizenga Managers Fund, Ltd.	52,289	-	-	52,289
Bank money market funds	117,710	-	-	117,710
	\$ 169,999	\$ 9,198,762	\$ -	\$ 9,368,761

Investment income (losses) consists of:

	For the Year Ended June 30, 2013			
	Other	Held In Reserve for Bonds Payable	Endowment	Total
Dividend and interest	\$ 46,994	\$ 49,604	\$ 61,442	\$ 158,040
Investment management fees	-	(55)	(8,687)	(8,742)
Net realized gains	-	107,818	31,275	139,093
Net unrealized (losses) gains	(37,587)	134,969	369,529	466,911
	\$ 9,407	\$ 292,336	\$ 453,559	\$ 755,302

REHOBOTH CHRISTIAN SCHOOL ASSOCIATION

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

4. INVESTMENTS, continued

	For the Year Ended June 30, 2012			
	Other	Held In Reserve for Bonds Payable	Endowment	Total
Dividend and interest	\$ 43,679	\$ 74,938	\$ 55,075	\$ 173,692
Investment management fees	-	(1,538)	(8,725)	(10,263)
Net realized gains	-	64,107	13,849	77,956
Net unrealized losses	-	(182,894)	(96,332)	(279,226)
	\$ 43,679	\$ (45,387)	\$ (36,133)	\$ (37,841)

As described in Note 2 and above, certain funds held by RCS include alternative investments.

Investments held at Commonfund include investments in securities, limited partnerships and other investment funds for which market quotations may not be readily available. Such investments have been valued in accordance with the valuation policy described in Note 2 and above. Commonfund also holds certain investments which may be valued by a single market maker. Those estimated values may differ significantly from the values that would have been used had a ready market for the investments existed, and the differences could be material. Additionally, certain of the investments in limited partnerships, investment funds and other debt instruments may be restricted as to resale or may require advance notice for redemption or withdrawal. Commonfund's investments in partnerships are subject to various risk factors arising from the investment activities of the underlying vehicles including market, credit and currency risk. Certain of the investment partnerships owned by Commonfund transact in short sales and various domestic and international derivative investments, including forward foreign currency contracts, futures, written and purchased options and swaps, exposing the investment partnership to market risk in excess of the amounts recorded in their financial statements. In addition, credit risk arises from certain options, forwards and swaps from potential counterparty nonperformance. Commonfund invests in securities of foreign companies, which involves special risks including revaluation of currency and future adverse political and economic developments. Moreover, securities of many foreign companies and their markets may be less liquid, and their prices more volatile, than those of comparable U.S. companies.

Certain of Commonfund's holdings invest in mortgage-backed securities including collateralized mortgage obligations. Yields on mortgage-backed securities are affected by interest and prepayment rates which, in turn, are influenced by a variety of economic, geographical, social and other factors. Maturities on mortgage-backed securities represent stated maturity dates. Actual maturity dates may differ based on prepayment rates. Certain of Commonfund's own investment partnerships may have limited liquidity and only permit redemptions at specified intervals. Such liquidity parameters may impact Commonfund's ability to react quickly to changing market conditions and to meet its own liquidity needs.

Investments held at Barnabas Foundation include funds invested in alternative investments, including the Managed Futures Fund and the Low Volatility Fund.

REHOBOTH CHRISTIAN SCHOOL ASSOCIATION

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

4. INVESTMENTS, continued

The Managed Futures Fund invests in long and short strategies trading in financial, currencies or commodities futures allocated across multiple commodity trading advisors. The investment objective of this fund is to provide diversification across asset classes and provide positive performance in a wide range of market environments. The fund invests in a pooled investment fund called Systematic Momentum through Merrill Lynch and is subadvised by eight commodity trading advisors. The fund is benchmarked to the CS/Tremont Managed Futures Index. The Barnabas Foundation uses net asset value to determine the fair value of the managed futures fund. The fund is valued as of the close of business on the last business day of each month.

The Low Volatility Fund invests in a globally diversified selection of hedge funds or hedge fund of funds. The goal of the fund is to generate equity-like returns with half the volatility of the equity markets. The fund may invest in hedge funds or hedge fund of funds that utilize a wide range of complex strategies that may include long/short equities, long/short credit, convertible arbitrage, global macro, enhanced fixed income, event driven, private real estate, private equity, natural resources or merger arbitrage. Performance of the fund shall be measured relative to the HFRI Fund of Funds Index. In addition, the fund's performance shall be expected to generate returns that exceed the total return of the S&P 500 index over full market cycles with a standard deviation of less than half the index.

5. ENDOWMENT

The endowment of RCS consists of a contribution of land, 44 individual funds established for student scholarships, two funds for the general operation of the school and one fund for athletic facilities. The endowment includes both donor-restricted endowment funds and funds designated by the Board to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Trustees of RCS has interpreted New Mexico Prudent Management of Institutional Funds Act (NM-PMIFA) as requiring the preservation of the fair value of the original gifts as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, RCS classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by NM-PMIFA. In accordance with NM-PMIFA, the organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund;
- (2) The purposes of the organization and the donor-restricted endowment fund;
- (3) General economic conditions;
- (4) The possible effect of inflation and deflation;
- (5) The expected total return from income and the appreciation of investments;
- (6) Other resources of the organization;
- (7) The investment policies of the organization.

REHOBOTH CHRISTIAN SCHOOL ASSOCIATION

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

5. ENDOWMENT, continued

ENDOWMENT NET ASSET COMPOSITION BY TYPE OF FUND

		June 30, 2013			
		Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds		\$ -	\$ 491,284	2,694,758	\$ 3,186,042
Board-designated funds		892,300	-	-	892,300
		\$ 892,300	\$ 491,284	\$ 2,694,758	\$ 4,078,342
		June 30, 2012			
		Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds		\$ -	\$ 260,211	2,628,380	\$ 2,888,591
Board-designated funds		844,811	-	-	844,811
		\$ 844,811	\$ 260,211	\$ 2,628,380	\$ 3,733,402

REHOBOTH CHRISTIAN SCHOOL ASSOCIATION

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

5. ENDOWMENT, continued

CHANGES IN ENDOWMENT NET ASSETS

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2011	\$ 930,761	\$ 400,250	\$ 2,508,209	\$ 3,839,220
Investment return				
Investment income	12,279	41,388	-	53,667
Realized gains	2,967	10,882	-	13,849
Unrealized losses	(21,649)	(74,683)	-	(96,332)
Management fees	(1,835)	(6,890)	-	(8,725)
Total investment return	(8,238)	(29,303)	-	(37,541)
Contributions	-	-	120,171	120,171
Appropriation of endowment assets for expenditure	(41,714)	(148,345)	-	(190,059)
Other changes				
Cash surrender value of life insurance policies	-	1,408	-	1,408
Annuity value	-	203	-	203
Shortfall in temporarily restricted net assets from excess appropriation of assets for expenditure	(35,998)	35,998	-	-
Endowment net assets, June 30, 2012	844,811	260,211	2,628,380	3,733,402
Investment return				
Investment income	11,460	44,789	-	56,249
Realized gains	6,942	24,333	-	31,275
Unrealized gains	74,604	294,925	-	369,529
Management fees	(1,740)	(6,947)	-	(8,687)
Total investment return	91,266	357,100	-	448,366
Contributions	-	33,977	66,378	100,355
Appropriation of endowment assets for expenditure	(43,076)	(161,476)	-	(204,552)
Other changes				
Cash surrender value of life insurance policies	-	5,193	-	5,193
Annuity value	-	(4,422)	-	(4,422)
Shortfall in temporarily restricted net assets from excess appropriation of assets for expenditure	(701)	701	-	-
Endowment net assets, June 30, 2013	\$ 892,300	\$ 491,284	\$ 2,694,758	\$ 4,078,342

REHOBOTH CHRISTIAN SCHOOL ASSOCIATION

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

5. ENDOWMENT, continued

DESCRIPTION OF AMOUNTS CLASSIFIED AS PERMANENTLY RESTRICTED NET ASSETS AND TEMPORARILY RESTRICTED NET ASSETS (ENDOWMENT ONLY)

	June 30,	
	2013	2012
Permanently Restricted Net Assets:		
The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by NM-PMIFA and therefore classified as permanently restricted net assets	\$ 2,694,758	\$ 2,628,380
Temporarily Restricted Net Assets:		
The portion of perpetual endowment funds subject to a time restriction under NM-PMIFA		
With purpose restrictions	\$ 167,864	\$ 75,524
Without purpose restrictions	323,420	184,687
Total endowment funds classified as temporarily restricted net assets	\$ 491,284	\$ 260,211

FUNDS WITH DEFICIENCIES

From time to time the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or NM-PMIFA requires RCS to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature are to be reported in unrestricted net assets. These deficiencies generally result from unfavorable market fluctuations that occur shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that is deemed prudent by the board. There were deficiencies of \$36,699 and \$35,998 as of June 30, 2013 and 2012, respectively.

RETURN OBJECTIVES AND RISK PARAMETERS

The investment objectives of RCS are:

- (1) to preserve the principal value of the endowment fund,
- (2) to provide growth and income by earning a reasonable return on endowment investments and
- (3) to invest endowment funds in a manner which is consistent with the needs and circumstances of donors and beneficiaries.

The long-term investment goal is to provide a long-term rate of return on an annualized basis of 3 percent in excess of the rate of inflation as measured by the Consumer Price Index. Actual returns in any given year may vary from this amount.

STRATEGIES EMPLOYED FOR ACHIEVING OBJECTIVES

To satisfy its long-term rate-of-return objectives, RCS relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). RCS targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

REHOBOTH CHRISTIAN SCHOOL ASSOCIATION

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

5. ENDOWMENT, continued

SPENDING POLICY AND HOW THE INVESTMENT OBJECTIVES RELATE TO SPENDING POLICY

RCS has a policy of appropriating for distribution each year 5 percent of the average fair value of the endowment fund over the prior 16 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, RCS considered the long-term expected return on its endowment. Accordingly, over the long term, RCS expects the current spending policy to allow its endowment to grow at an average of 8 percent annually. This is consistent with RCS's objective to maintain the purchasing power of the endowment assets held for donor-specified purposes as well as to provide additional real growth through new gifts and investment return.

6. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	June 30,	
	2013	2012
Land and land improvements	\$ 2,704,589	\$ 2,594,731
Buildings	17,935,842	17,829,930
Furniture	434,336	434,336
Computers	736,215	727,219
Maintenance equipment	156,825	156,825
Vehicles	369,031	355,456
Construction in progress	17,088	90,727
	<u>22,353,926</u>	<u>22,189,224</u>
Less accumulated depreciation	<u>(7,969,284)</u>	<u>(7,126,666)</u>
	<u>\$ 14,384,642</u>	<u>\$ 15,062,558</u>

7. INTEREST RATE SWAP

In 2007, RCS entered into an interest rate swap agreement to reduce the impact of changes in interest rates on its variable rate long-term debt. This agreement was amended in May 2010. It was terminated in March 2013. This agreement effectively changed RCS's interest rate exposure on its \$7,480,000 Colorado Educational and Cultural Facilities Authority (CECFA) variable rate bonds, due May 2013, to a fixed rate of 3.59 percent per annum from May 2010 through May 2017 (the effective fixed rate prior to May 2010 was 3.8375 percent per annum).

Because current market fixed rates of the underlying debt issue were lower than the hedge fixed rate as of June 30, 2012, the fair value of the hedge was reported as a liability of \$1,080,179. For the year ended June 30, 2012, net losses attributable to the interest rate swap agreement totaled \$263,543, and net losses attributable to the mark-to-market of the hedge totaled \$182,769. In anticipation of refinancing its variable rate long-term debt (Note 8), RCS terminated the interest rate swap agreement in March 2013 and paid the cumulative obligation of \$992,167. For the year ended June 30, 2013, net losses attributable to the interest rate swap agreement totaled \$131,609, and net gains attributable to the mark-to-market of the hedge totaled \$88,012. At June 30, 2013 and 2012, the total principal amount of the interest rate swap was \$-0- and \$7,480,000, respectively.

Interest rate and mark-to-market gains and losses are netted with interest expense for financial reporting purposes.

REHOBOTH CHRISTIAN SCHOOL ASSOCIATION

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

8. BONDS PAYABLE

In May 2007, RCS issued \$7,925,000 of Adjustable Rate Demand Revenue Bonds, Series 2007, through the CECFA, due serially each May 1 in amounts ranging from \$135,000 in 2012 to \$500,000 in 2037. The proceeds financed the construction of educational and athletic facilities, campus infrastructure improvements, capitalized interest on the Series 2007 bonds and certain costs of issuance of the bonds.

Payment of the principal and interest on the bonds was backed by an irrevocable direct pay letter of credit issued by KeyBank National Association through May 2010, when the agreement indenture was amended to allow the bonds to bear interest at a Purchaser Interest Rate and to be treated as "bank qualified" under Section 265(b) of the Internal Revenue Code of 1986. The letter of credit is not required while the bonds are in Purchaser Interest Rate mode, but a new letter of credit would have had to be obtained had the bonds ever be converted to a new interest rate mode.

The interest rate on the Series 2007 bonds was adjusted monthly to approximate an interest rate that would result in a par bid for the bonds. The purchaser interest rate at June 30, 2012 was approximately 1.7 percent per annum.

In May 2013, RCS issued \$5,500,000 of fixed rate bonds through the Public Finance Authority, a Wisconsin bond issuing commission, for the purpose of refunding the Series 2007 bond issue. The bonds are due serially each May 1 in amounts ranging from \$160,000 in 2014 to \$170,000 in 2017, with a balloon payment of \$4,845,000 due in 2018. Interest is payable quarterly at 2.6 percent per annum. The bonds are secured by RCS land, buildings and personal property.

Marketable securities with carrying values of \$2,585,682 and \$5,865,479 at June 30, 2013 and 2012, respectively, have also been set aside in reserve by RCS for the bond issues.

RCS is in compliance with all debt covenants.

The following is a summary of the changes in long-term debt:

	June 30,	
	2013	2012
CECFA bonds payable		
Beginning	\$ 7,480,000	\$ 7,615,000
Principal payments	(7,480,000)	(135,000)
Total CECFA bonds payable	<u>\$ -</u>	<u>\$ 7,480,000</u>
Public Finance Authority bonds payable		
Beginning	\$ -	
Proceeds from bond issue	5,500,000	
Total Public Finance Authority bonds payable	<u>\$ 5,500,000</u>	

REHOBOTH CHRISTIAN SCHOOL ASSOCIATION

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

8. BONDS PAYABLE, continued

The future scheduled maturities of long-term debt are as follows:

Year Ending June 30,	Principal
2014	\$ 160,000
2015	160,000
2016	165,000
2017	170,000
2018	4,845,000
Total	\$ 5,500,000

9. CAPITAL AND OPERATING LEASES

Equipment under a capital lease consists of computer equipment with a capitalized cost of \$17,846. Depreciation expense is \$3,569 annually and accumulated depreciation includes \$16,359 and \$12,790 of amortized costs relating to this leased equipment for the years ended June 30, 2013 and 2012, respectively. The lease is for a term of 36 months, requires monthly payments of \$511 and includes a \$1 purchase option at the end of the lease term. The assets and liabilities under this agreement are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. This equipment is being amortized over its estimated productive life of 60 months. Lease payments made under this agreement were \$-0- and \$2,045 for the fiscal years ended June 30, 2013 and 2012, respectively

RCS also leases office equipment under four operating lease arrangements. These leases are for a term of 48 months, require monthly payments totaling \$1,725 and are non-cancelable. Total lease payments under these agreements were \$20,700 for each of the fiscal years ended June 30, 2013 and 2012, respectively. The operating lease terms mature in November 2014. Future minimum lease payments under the operating lease agreements are as follows:

Year Ending June 30,	Principal
2014	\$ 6,900

During the year ended June 30, 2010, RCS agreed to lease office space to an unrelated party through August 2014. Under the terms of this agreement, RCS is to receive monthly rental payments of \$550. The tenant may terminate the lease at any time, provided it provides ninety days notice to RCS.

The following represents the RCS's investment in rental property at June 30, 2013:

Building	\$ 55,678
Less: accumulated depreciation	(34,799)
	\$ 20,879

REHOBOTH CHRISTIAN SCHOOL ASSOCIATION

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

10. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following:

	June 30,	
	2013	2012
General endowment	\$ 323,420	\$ 184,687
Tuition assistance endowments	167,864	75,524
	\$ 491,284	\$ 260,211

11. PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consist of the following:

	June 30,	
	2013	2012
Athletic facilities endowment	\$ 1,000,000	\$ 1,000,000
General endowment	853,844	820,201
Tuition assistance endowments	840,914	808,179
Land	1,831,440	1,831,440
	\$ 4,526,198	\$ 4,459,820

12. CONCENTRATION

For the years ended June 30, 2013 and 2012, 44 percent and 37 percent of total unrestricted contributions were received from 12 donors and nine donors, respectively.

13. LINE OF CREDIT

RCS utilized a \$100,000 unsecured bank line of credit from October 2012 through April 2013 and a \$600,000 unsecured line of credit during the year ended June 30, 2012 and through September 2012. Interest on the \$100,000 line of credit was determined using the bank's prime rate (4.25 percent per annum at June 30, 2013). Interest on the \$600,000 line of credit was determined using the bank's prime rate less 1 percent (3.25 percent per annum at June 30, 2012). There were no open line of credit agreements at June 30, 2013.

RCS entered into a \$300,000 bank line of credit agreement in August 2013. The note matures in August 2014, is secured by bank deposits with a fixed rate of interest of 2 percent per annum.

REHOBOTH CHRISTIAN SCHOOL ASSOCIATION

Notes to Consolidated Financial Statements

June 30, 2013 and 2012

14. SUBSEQUENT EVENTS

Subsequent events were evaluated through November 16, 2013, which is the date the financial statements were available to be issued.

On November 12, 2013, Rehoboth Christian School and Rehoboth Village was officially annexed into the City of Gallup by a vote of the Gallup City Council, with the annexation occurring 30 days after this date. Annexation was requested by RCS to gain access to city water, allow RCS to exit the business of billing the residents of Rehoboth Village for water, sewer and refuse and also allows RCS to turn over the majority of the school campus streets, and all of the Rehoboth Village streets to the ownership and maintenance of the City of Gallup.

SUPPLEMENTARY DATA

REHOBOTH CHRISTIAN SCHOOL ASSOCIATION

Consolidating Statements of Financial Position

	June 30, 2013				June 30, 2012			
	Rehoboth Christian School	Rehoboth Development, LLC	Eliminations	Totals	Rehoboth Christian School	Rehoboth Development, LLC	Eliminations	Totals
ASSETS								
Cash and cash equivalents	371,938	\$ 51,401	\$ -	\$ 423,339	\$ 142,721	\$ 582	\$ -	\$ 143,303
Accounts receivable - net of allowance of \$20,000 at June 30, 2013 and \$24,000 at June 30, 2012	50,722	-	-	50,722	337,925	-	-	337,925
Prepaid expenses	19,329	-	-	19,329	27,973	-	-	27,973
Due from Rehoboth Development, LLC	92,704	-	(92,704)	-	93,262	-	(93,262)	-
Contributions receivable - Note 3	1,259,426	-	-	1,259,426	330,939	-	-	330,939
Inventory	17,853	-	-	17,853	32,692	-	-	32,692
Unamortized loan costs, net of accumulated amortization of \$6,815 at June 30, 2013 and \$93,278 at June 30, 2012	197,620	-	-	197,620	367,904	-	-	367,904
Note receivable	629,856	-	-	629,856	583,200	-	-	583,200
Note receivable from Rehoboth Development, LLC	191,056	-	(191,056)	-	190,498	-	(190,498)	-
Property held for sale	-	577,949	-	577,949	-	722,363	-	722,363
Cash and investments held in reserve for bonds payable	2,585,682	-	-	2,585,682	5,865,479	-	-	5,865,479
Cash surrender value of life insurance policies	40,754	-	-	40,754	35,561	-	-	35,561
Barnabas Foundation annuity gifts receivable	11,229	-	-	11,229	11,833	-	-	11,833
Investments held for long-term purposes	3,906,082	-	-	3,906,082	3,503,282	-	-	3,503,282
Property and equipment, net of accumulated depreciation	14,384,642	-	-	14,384,642	15,062,558	-	-	15,062,558
Total Assets	\$ 23,758,893	\$ 629,350	\$ (283,760)	\$ 24,104,483	\$ 26,585,827	\$ 722,945	\$ (283,760)	\$ 27,025,012
LIABILITIES AND NET ASSETS								
Liabilities								
Accounts payable	\$ 61,352	\$ -	\$ -	\$ 61,352	\$ 43,406	\$ -	\$ -	\$ 43,406
Accrued expenses	78,521	-	-	78,521	91,036	1,085	-	92,121
Deferred revenue	30,490	-	-	30,490	29,937	-	-	29,937
Due to Rehoboth Christian School	-	92,704	(92,704)	-	-	93,262	(93,262)	-
Note payable	-	-	-	-	-	37,329	-	37,329
Note payable to Rehoboth Christian School	-	191,056	(191,056)	-	-	190,498	(190,498)	-
Interest rate swap	-	-	-	-	1,080,179	-	-	1,080,179
Present value of annuity agreements	44,973	-	-	44,973	3,948	-	-	3,948
Bonds payable	5,500,000	-	-	5,500,000	7,480,000	-	-	7,480,000
Total Liabilities	5,715,336	283,760	(283,760)	5,715,336	8,728,506	322,174	(283,760)	8,766,920
Net Assets								
Unrestricted								
Undesignated	4,034,947	345,590	-	4,380,537	5,448,246	400,771	-	5,849,017
Designated	106,486	-	-	106,486	106,486	-	-	106,486
Net investment in property and equipment	8,884,642	-	-	8,884,642	7,582,558	-	-	7,582,558
	13,026,075	345,590	-	13,371,665	13,137,290	400,771	-	13,538,061
Temporarily restricted	491,284	-	-	491,284	260,211	-	-	260,211
Permanently restricted	4,526,198	-	-	4,526,198	4,459,820	-	-	4,459,820
Total Net Assets	18,043,557	345,590	-	18,389,147	17,857,321	400,771	-	18,258,092
Total Liabilities and Net Assets	\$ 23,758,893	\$ 629,350	\$ (283,760)	\$ 24,104,483	\$ 26,585,827	\$ 722,945	\$ (283,760)	\$ 27,025,012

REHOBOTH CHRISTIAN SCHOOL ASSOCIATION

Consolidating Statement of Activities

For the Year Ended June 30, 2013

	Rehoboth Christian School			Rehoboth Development, LLC			Eliminations	Totals
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted		
SUPPORT AND REVENUE								
Tuition and fees	\$ 2,801,758	\$ -	\$ -	\$ 2,801,758	\$ -	\$ -	\$ -	\$ 2,801,758
Less: tuition grants and discounts	(1,313,584)	-	-	(1,313,584)	-	-	-	(1,313,584)
	<u>1,488,174</u>	<u>-</u>	<u>-</u>	<u>1,488,174</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,488,174</u>
Sales	41,598	-	-	41,598	90,000	-	90,000	131,598
Less: cost of sales	-	-	-	-	(108,500)	-	(108,500)	(108,500)
	<u>41,598</u>	<u>-</u>	<u>-</u>	<u>41,598</u>	<u>(18,500)</u>	<u>-</u>	<u>(18,500)</u>	<u>23,098</u>
Contributions	1,977,543	1,308,739	66,378	3,352,660	-	-	-	3,352,660
Fund-raisers, net of expenses	18,263	-	-	18,263	-	-	-	18,263
Grants	101,226	-	-	101,226	-	-	-	101,226
Rental	102,658	-	-	102,658	-	-	-	102,658
Campus program revenue	277,424	-	-	277,424	-	-	-	277,424
Investment income (losses)	430,596	362,293	-	792,889	(37,587)	-	(37,587)	755,302
Change in value of annuity agreements	-	(4,422)	-	(4,422)	-	-	-	(4,422)
Thrift store sales	7,448	-	-	7,448	-	-	-	7,448
Other income	79,745	-	-	79,745	1,275	-	1,275	81,020
	<u>4,524,675</u>	<u>1,666,610</u>	<u>66,378</u>	<u>6,257,663</u>	<u>(54,812)</u>	<u>-</u>	<u>(54,812)</u>	<u>6,202,851</u>
Total Support and Revenue								
RECLASSIFICATIONS								
Net assets released for satisfaction of purpose restrictions	1,435,537	(1,435,537)	-	-	-	-	-	-
EXPENSES								
Program services								
Instructional	3,235,484	-	-	3,235,484	-	-	-	3,235,484
Auxiliary	1,021,780	-	-	1,021,780	-	-	-	1,021,780
Extra-Curricular	176,194	-	-	176,194	-	-	-	176,194
Total Program Services	<u>4,433,458</u>	<u>-</u>	<u>-</u>	<u>4,433,458</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,433,458</u>
Supporting activities								
Management and general	1,263,403	-	-	1,263,403	-	-	-	1,263,403
Fund-raising	374,566	-	-	374,566	-	-	-	374,566
Total Supporting Activities	<u>1,637,969</u>	<u>-</u>	<u>-</u>	<u>1,637,969</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,637,969</u>
RDLLC operations	-	-	-	-	369	-	369	369
	<u>6,071,427</u>	<u>-</u>	<u>-</u>	<u>6,071,427</u>	<u>369</u>	<u>-</u>	<u>369</u>	<u>6,071,796</u>
Total Expenses								
Change in Net Assets	(111,215)	231,073	66,378	186,236	(55,181)	-	(55,181)	131,055
Net Assets, Beginning of Year	13,137,290	260,211	4,459,820	17,857,321	400,771	-	400,771	18,258,092
	<u>\$ 13,026,075</u>	<u>\$ 491,284</u>	<u>\$ 4,526,198</u>	<u>\$ 18,043,557</u>	<u>\$ 345,590</u>	<u>\$ -</u>	<u>\$ 345,590</u>	<u>\$ 18,389,147</u>
Net Assets, End of Year								

REHOBOTH CHRISTIAN SCHOOL ASSOCIATION

Consolidating Statement of Activities

For the Year Ended June 30, 2012

	Rehoboth Christian School			Rehoboth Development, LLC			Eliminations	Totals
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted		
SUPPORT AND REVENUE								
Tuition and fees	\$ 2,712,779	\$ -	\$ -	\$ 2,712,779	\$ -	\$ -	\$ -	\$ 2,712,779
Less: tuition grants and discounts	(1,190,589)	-	-	(1,190,589)	-	-	-	(1,190,589)
	<u>1,522,190</u>	<u>-</u>	<u>-</u>	<u>1,522,190</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,522,190</u>
Sales	39,110	-	-	39,110	30,000	-	30,000	69,110
Less: cost of sales	-	-	-	-	(37,998)	-	(37,998)	(37,998)
	<u>39,110</u>	<u>-</u>	<u>-</u>	<u>39,110</u>	<u>(7,998)</u>	<u>-</u>	<u>(7,998)</u>	<u>31,112</u>
Contributions	1,862,268	54,933	120,171	2,037,372	-	-	-	2,037,372
Fund-raisers, net of expenses	24,968	-	-	24,968	-	-	-	24,968
Grants	548,781	-	-	548,781	-	-	-	548,781
Rental	119,779	-	-	119,779	-	-	-	119,779
Campus program revenue	257,926	-	-	257,926	-	-	-	257,926
Investment losses	(9,947)	(27,894)	-	(37,841)	-	-	-	(37,841)
Change in value of annuity agreements	-	203	-	203	-	-	-	203
Thrift store sales	1,896	-	-	1,896	-	-	-	1,896
Other income	93,976	-	-	93,976	250	-	250	94,226
	<u>4,460,947</u>	<u>27,242</u>	<u>120,171</u>	<u>4,608,360</u>	<u>(7,748)</u>	<u>-</u>	<u>(7,748)</u>	<u>4,600,612</u>
Total Support and Revenue								
RECLASSIFICATIONS								
Net assets released for satisfaction of purpose restrictions	172,281	(172,281)	-	-	-	-	-	-
EXPENSES								
Program services								
Instructional	2,753,775	-	-	2,753,775	-	-	-	2,753,775
Auxiliary	1,400,731	-	-	1,400,731	-	-	-	1,400,731
Extra-Curricular	198,318	-	-	198,318	-	-	-	198,318
Total Program Services	<u>4,352,824</u>	<u>-</u>	<u>-</u>	<u>4,352,824</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,352,824</u>
Supporting activities								
Management and general	1,546,888	-	-	1,546,888	-	-	-	1,546,888
Fund-raising	357,777	-	-	357,777	-	-	-	357,777
Total Supporting Activities	<u>1,904,665</u>	<u>-</u>	<u>-</u>	<u>1,904,665</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,904,665</u>
RDLLC operations	-	-	-	-	4,574	-	4,574	4,574
	<u>6,257,489</u>	<u>-</u>	<u>-</u>	<u>6,257,489</u>	<u>4,574</u>	<u>-</u>	<u>4,574</u>	<u>6,262,063</u>
Total Expenses								
Change in Net Assets	(1,624,261)	(145,039)	120,171	(1,649,129)	(12,322)	-	(12,322)	(1,661,451)
Net Assets, Beginning of Year	14,761,551	405,250	4,339,649	19,506,450	413,093	-	413,093	19,919,543
	<u>\$ 13,137,290</u>	<u>\$ 260,211</u>	<u>\$ 4,459,820</u>	<u>\$ 17,857,321</u>	<u>\$ 400,771</u>	<u>\$ -</u>	<u>\$ 400,771</u>	<u>\$ 18,258,092</u>
Net Assets, End of Year								

REHOBOTH CHRISTIAN SCHOOL ASSOCIATION

Supplemental Schedule of Functional Expenses

For the Year Ended June 30, 2013

	Instructional	Auxiliary	Extra-Curricular	Total Program Services	Management and General	Fund-Raising	Total Supporting Activities	RDLLC	Totals
Salaries and wages	\$ 1,664,113	\$ 327,143	\$ 46,779	\$ 2,038,035	\$ 479,924	\$ 158,640	\$ 638,564	\$ -	\$ 2,676,599
Pension plan contributions	71,495	14,707	237	86,439	19,154	8,089	27,243	-	113,682
Other employee benefits	214,411	29,591	1,247	245,249	45,647	23,268	68,915	-	314,164
Payroll taxes	117,042	23,442	2,821	143,305	29,273	15,081	44,354	-	187,659
Fees for services (non-employees)	3,088	272	19,430	22,790	2,190	5,745	7,935	180	30,905
Management	3,769	2,109	179	6,057	7,266	2,890	10,156	-	16,213
Legal	-	-	-	-	3,778	-	3,778	-	3,778
Accounting	-	-	-	-	42,308	-	42,308	-	42,308
Advertising and promotion	-	-	-	-	27,074	63,086	90,160	-	90,160
Office expenses	55,559	24,737	11,576	91,872	80,204	21,716	101,920	169	193,961
Information technology	60,840	19,214	2,895	82,949	21,016	8,920	29,936	-	112,885
Occupancy	144,979	45,785	6,898	197,662	49,981	20,958	70,939	-	268,601
Travel	6,794	157,376	17,246	181,416	23,016	32,671	55,687	-	237,103
Conferences, conventions and meetings	-	-	-	-	401	-	401	-	401
Interest	64,917	20,501	3,089	88,507	65,545	8,091	73,636	20	162,163
Depreciation and amortization	715,455	225,944	34,040	975,439	241,899	-	241,899	-	1,217,338
Insurance	43,415	13,711	2,065	59,191	14,679	5,411	20,090	-	79,281
Educational activities and programs	21,999	5,144	-	27,143	1,297	-	1,297	-	28,440
Athletics	-	-	3,169	3,169	-	-	-	-	3,169
Bad debt expense	-	-	-	-	94,329	-	94,329	-	94,329
Lunch program	-	97,068	-	97,068	-	-	-	-	97,068
Student activities	47,606	15,035	24,523	87,164	-	-	-	-	87,164
Thrift store	-	-	-	-	6,216	-	6,216	-	6,216
Miscellaneous	2	1	-	3	8,206	-	8,206	-	8,209
Total Expenses	\$ 3,235,484	\$ 1,021,780	\$ 176,194	\$ 4,433,458	\$ 1,263,403	\$ 374,566	\$ 1,637,969	\$ 369	\$ 6,071,796

REHOBOTH CHRISTIAN SCHOOL ASSOCIATION

Supplemental Schedule of Functional Expenses

For the Year Ended June 30, 2012

	Instructional	Auxiliary	Extra-Curricular	Total Program Services	Management and General	Fund-Raising	Total Supporting Activities	RDLLC	Totals
Salaries and wages	\$ 1,589,770	\$ 555,695	\$ 42,829	\$ 2,188,294	\$ 480,610	\$ 160,387	\$ 640,997	\$ -	\$ 2,829,291
Pension plan contributions	80,095	15,495	239	95,829	21,360	7,440	28,800	-	124,629
Other employee benefits	164,173	42,992	4,351	211,516	51,774	18,912	70,686	-	282,202
Payroll taxes	111,444	40,404	2,596	154,444	29,719	15,285	45,004	-	199,448
Fees for services (non-employees)	7,881	6,531	17,375	31,787	759	1,348	2,107	840	34,734
Management	2,954	1,497	158	4,609	13,781	4,106	17,887	-	22,496
Legal	-	-	-	-	2,478	-	2,478	432	2,910
Accounting	-	-	-	-	39,877	-	39,877	-	39,877
Advertising and promotion	-	-	-	-	22,716	53,972	76,688	-	76,688
Office expenses	42,091	67,036	13,959	123,086	45,034	18,300	63,334	144	186,564
Information technology	45,763	23,195	2,432	71,390	23,281	8,213	31,494	-	102,884
Occupancy	118,537	60,080	6,300	184,917	59,555	19,029	78,584	-	263,501
Travel	5,522	168,290	23,776	197,588	24,905	37,635	62,540	-	260,128
Conferences, conventions and meetings	-	-	-	-	350	-	350	-	350
Interest	59,687	30,252	3,172	93,111	475,675	7,708	483,383	3,158	579,652
Depreciation and amortization	414,167	209,919	22,014	646,100	203,751	-	203,751	-	849,851
Insurance	42,037	21,306	2,235	65,578	20,680	5,429	26,109	-	91,687
Educational activities and programs	25,284	34,291	-	59,575	6,177	-	6,177	-	65,752
Athletics	-	-	4,508	4,508	-	-	-	-	4,508
Bad debt expense	-	-	-	-	7,348	-	7,348	-	7,348
Lunch program	-	114,453	-	114,453	-	-	-	-	114,453
Student activities	7,908	9,002	52,369	69,279	46	-	46	-	69,325
Thrift store	-	-	-	-	5,968	-	5,968	-	5,968
Miscellaneous	36,462	293	5	36,760	11,044	13	11,057	-	47,817
Total Expenses	\$ 2,753,775	\$ 1,400,731	\$ 198,318	\$ 4,352,824	\$ 1,546,888	\$ 357,777	\$ 1,904,665	\$ 4,574	\$ 6,262,063